



GCC Bonds Monitor - July 2019

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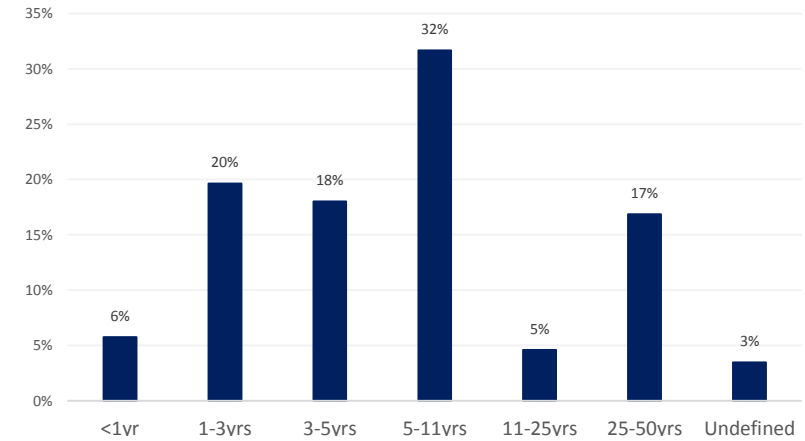


GCC FIXED RATE USD BOND UNIVERSE

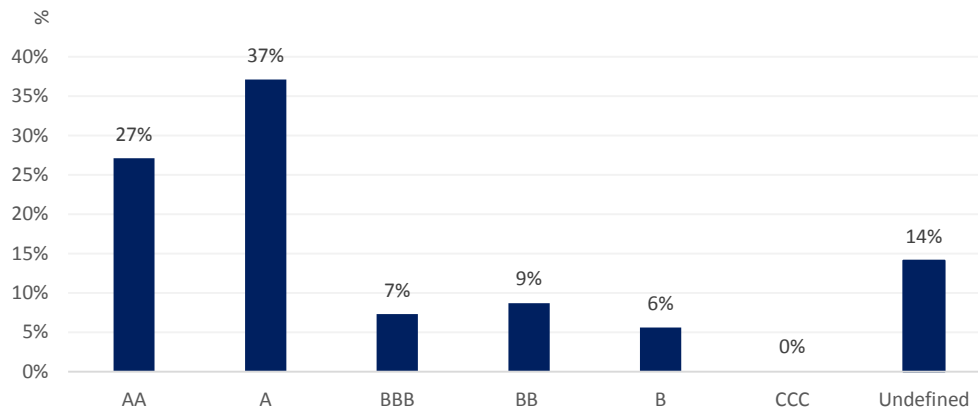


- As at the end of Q2 2019, total outstanding in the GCC fixed rate USD bond universe was USD 320 billion . This is nearly double of around USD 175 billion equivalent outstanding in various GCC local currency bond markets.
- About 44% of bonds mature in less than five years and 76% in less than 11 years. Circa 22% of the total is in sukuk format and 86% is rated investment grade (assuming Dubai Inc in the BBB range). UAE, Qatar and Saudi accounted for 21%, 16% and 26% of the total market respectively with Bahrain attributing only 6% of the total.
- Sovereigns are the largest issuers, accounting for circa 53% of the total followed by financial institutions at 25%.

GCC Bonds Maturity Profile

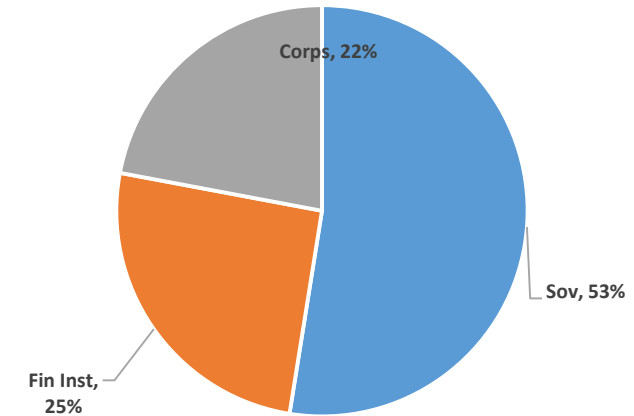


Credit Rating Breakdown



Source: Bloomberg, Emirates NBD Research

Sector Breakup



Source: Bloomberg, Emirates NBD Research

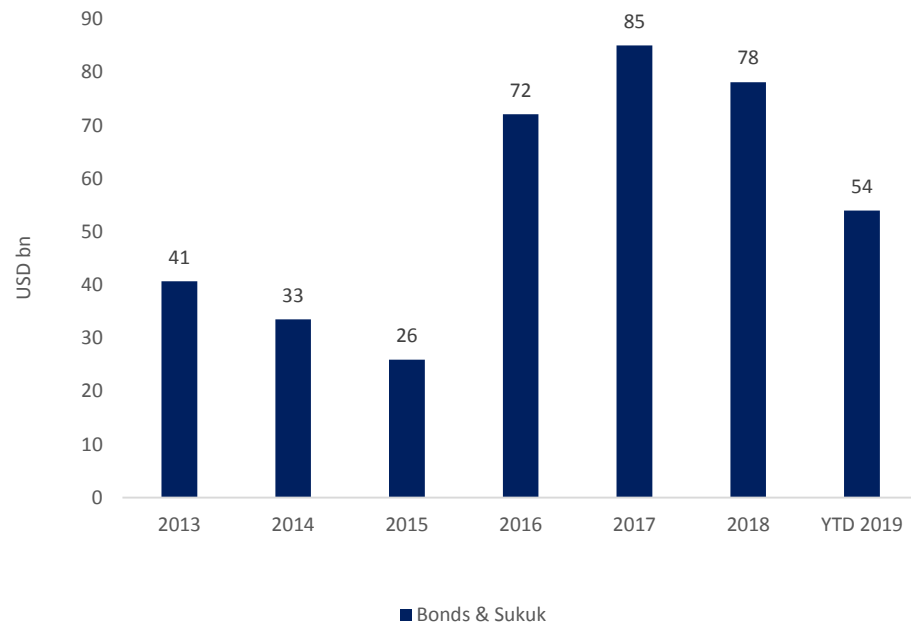


- In the first half of this year, USD denominated fixed rate new issues in the GCC totaled circa USD 54 billion, of which USD 8 billion was in sukuk format.
- Increasing prospects of oil production cuts boosted the case for higher oil prices which in turn stimulated the bid for GCC bonds. In addition, incremental bid on the back of index inclusion also continued to support GCC bonds. However, the biggest push for the June rally in GCC bonds came from the big slides in US treasury yields on the back of weak economic data and continuing trade tensions. Average option adjusted credit spreads on Bloomberg Barclays GCC bond index narrowed 25bps to 170 bps in June, facilitating monthly total returns to exceed 2.67%.
- M&A activity in the region remained high. Emirates NBD received regulatory approvals to consummate its acquisition of Denizbank in Turkey. Also DIB received board approval to acquire Noor Bank. Dubai based port operator, DP World acquired Topaz Energy for USD 1.1 billion while ADNOC sold 40% stake in its pipeline assets to Blackrock and KKR for USD 4 billion.
- Credit rating changes were mixed. S&P upgraded Sharjah Islamic Bank (SIB) to A- even though Moody's revised the outlook on SIB's A3 rating to negative.



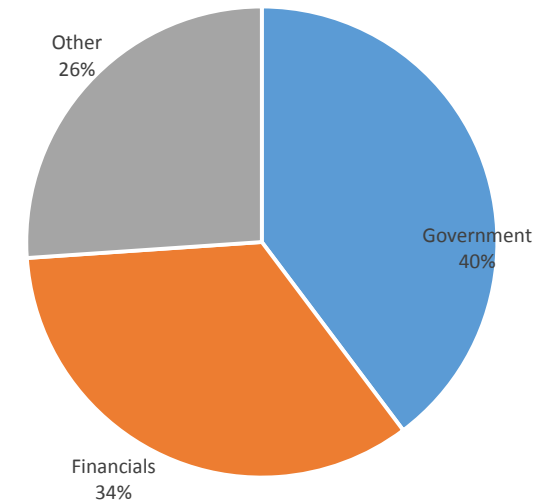
- New supply was abundant in H1 2019 and augurs well to meet or exceed our target of between USD 70 billion to USD 90 billion in new issues this year. Beside sovereigns, corporate issuers are expected to be active with several new issuers such as Aramco and Saudi Telecom having already tapped the market.

New supply : USD fixed rate GCC bonds



Source: Bloomberg, Emirates NBD Research

Sector breakup of new issues



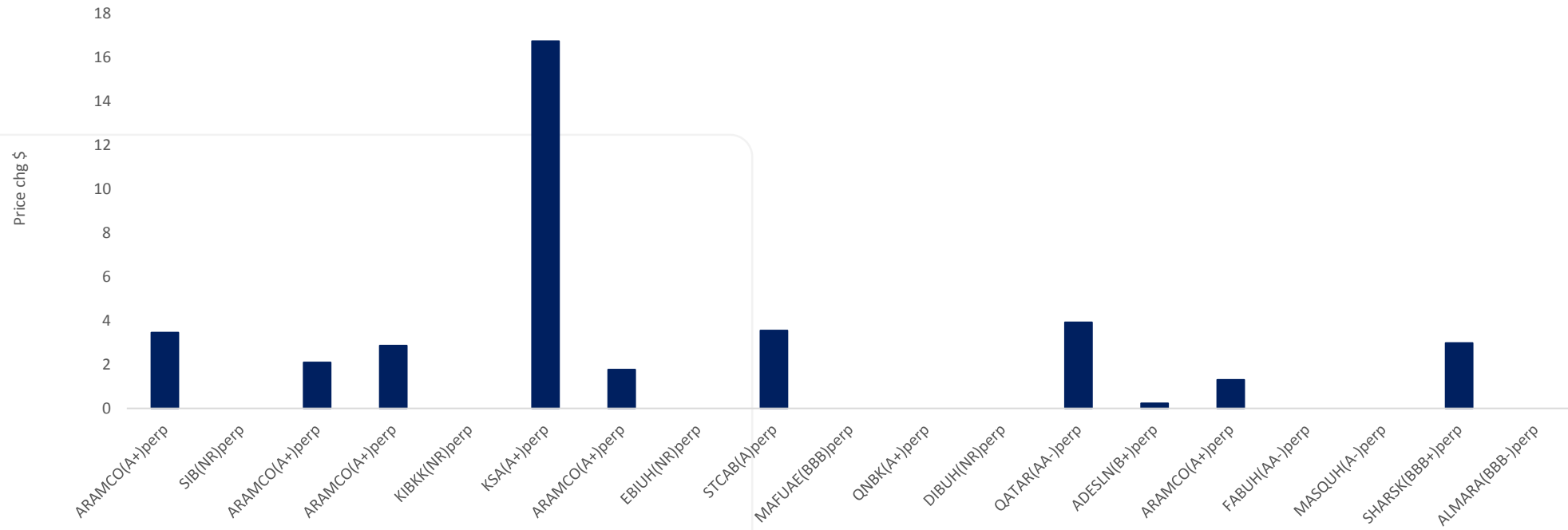
Source: Bloomberg, Emirates NBD Research

PERFORMANCE OF NEW ISSUES WAS STABLE IN JUNE



- High YTD new issuance is partly owed to jumbo issues by the Saudi Arabia's Aramco in April. More recently, extreme volatility in financial markets kept issuers on the sideline for most of June.
- The only sizeable new issue in June was the USD 500 million sukuk issued by Sharjah Islamic Bank which was over 9X oversubscribed. However given the competitive pricing received (profit rate of only 5%), the issue couldnt match its primary market performance in the secondary market.

YTD Price Change for new bonds



Source: Bloomberg, Emirates NBD Research

RECENT CREDIT RATING CHANGES



- New rating of B+ was assigned by Fitch to Dubai based oil and gas drilling services provider, ADES International Holding during the month. Also Emirates Strategic investments received a new rating of Baa3 from Moody's.
- Union National Bank's rating was withdrawn by Moodys after its merger with the Abu Dhabi Commercial Bank.
- Kuwait Energy's rating was affirmed at CCC after completion of its acquisition by United Energy Group.
- TAQA's final rating was affirmed at A3 by Moody's though its underlying rating was upgraded one notch from B2 to B1.

Company Name	Date	Agency	Curr Rtg	Last Rtg
ADES International Holdings	5/31/2019	Fitch	B+	
Gulf Int'l Bank (Sub debt)	5/27/2019	Moody's	Baa3	Baa2
Dubai Electricity & Water Auth	5/22/2019	S&P	NR	BBB
Union National bank	5/16/2019	Moodys	WR	Aa3
Kuwait Energy	6/19/2019	Fitch	CCC	CCC*+
Emirates Strategic Investments	6/28/2019	Moody's	Baa3	
TAQA	7/1/2019	Moodys	A3	

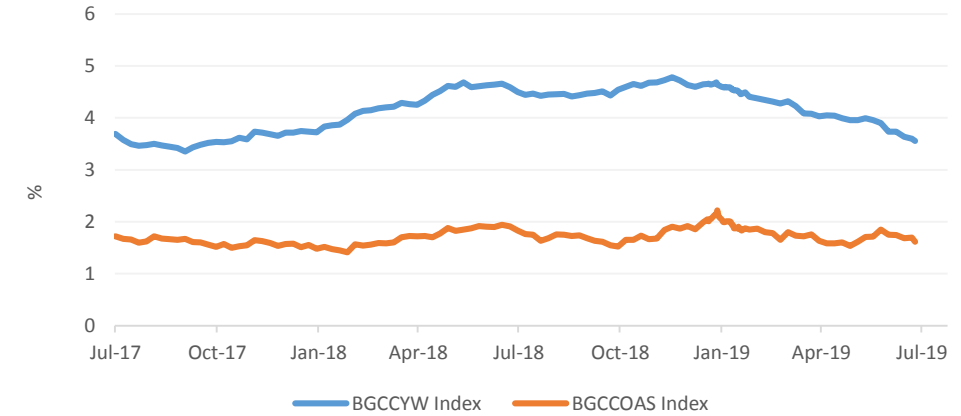
Source: Bloomberg, Emirates NBD Research

GCC BONDS PERFORMANCE

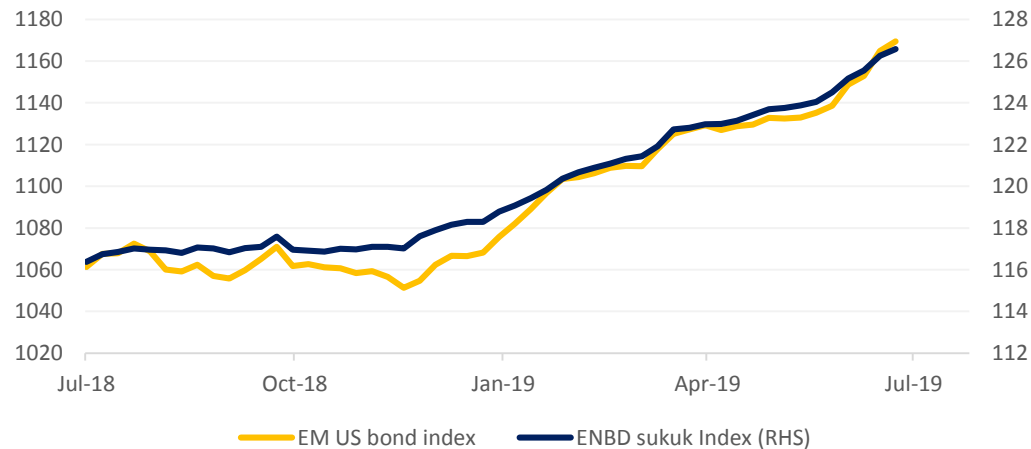


- Monthly total returns on Bloomberg Barclays GCC bond index was positive 2.77% attributed not only to tightening US treasury yields but also contraction in credit spreads.
- Both HY and IG bonds did well. Monthly return on IG bonds index was 2.81%, marginally better than that on HY bonds.
- Increasing prospects for oil production cuts to continue boosted the case for higher oil prices which in turn boosted the bid for GCC risk. Also ongoing inclusion in the EMBIG index is supporting incremental bid.
- Performance of global sukuk lagged their conventional counterparts as is generally the case in rallying markets.

Bloomberg Barclays GCC (IG+HY) bond index



Sukuk performance weaker than bonds



Source: Bloomberg, Emirates NBD Research

GCC bonds look attractive on relative value

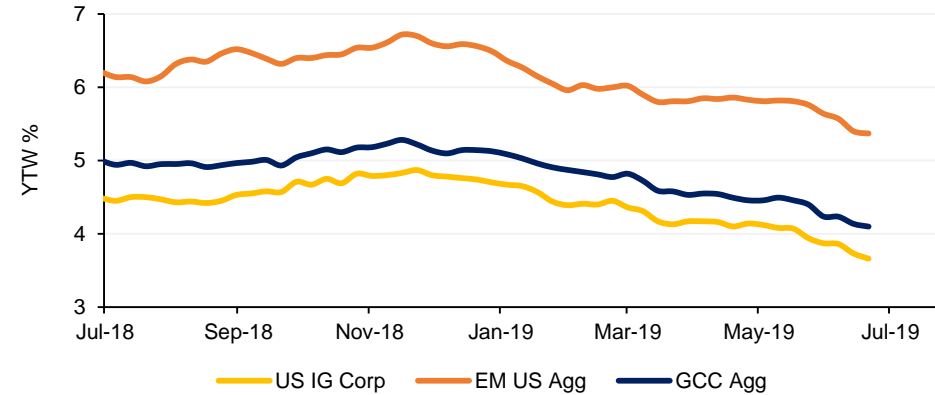
	Yield %	OAS bps	YTD Return %
US Agg Index	2.53	46	5.98
Euro Agg Index	0.20	70	5.76
EM US Agg Index	4.83	285	9.71
GCC IG Index	3.24	121	9.44
GCC (IG+HY) index	3.56	162	9.16

Source: Bloomberg, Emirates NBD Research

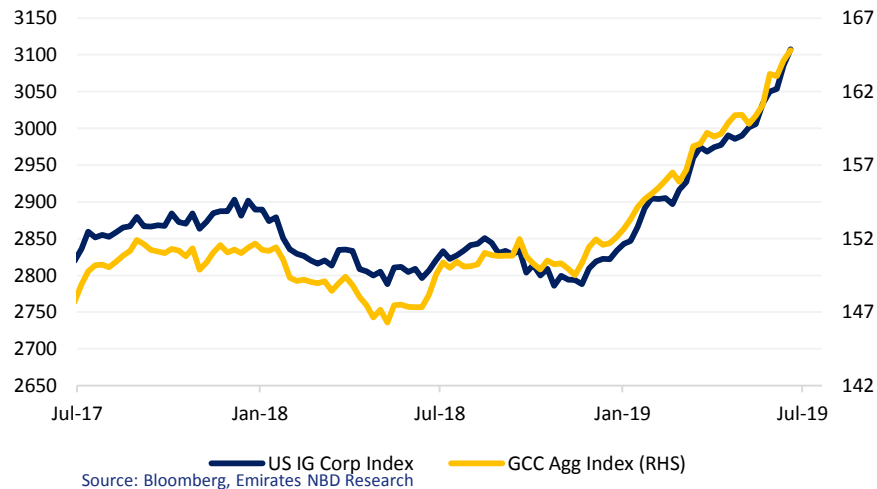
GCC BONDS UNDERPERFORMED THEIR EM PEERS IN JUNE

- In the month of June, yield on Bloomberg Barclays GCC bond index tightened 30bps to 3.60% compared with 39bps reduction in yield on EM USD bond index to 4.87%. Nevertheless it compares well with the 20bps tightening in yield on US aggregate bond index to 2.49%.
- Underperformance of GCC compared with the wider EM universe is largely attributed to a) increasing geopolitical concerns, b) possibility of economic growth getting negatively impacted if oil production cuts deepen further and c) concerns around banking and real estate related issuers in the face of soft real estate market in the region.

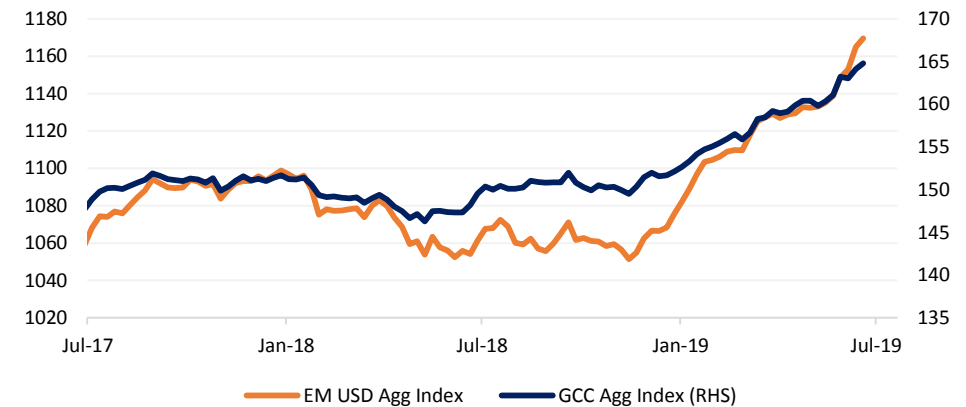
Global Bond Indices YTW %



Total return: GCC vs US IG Corp



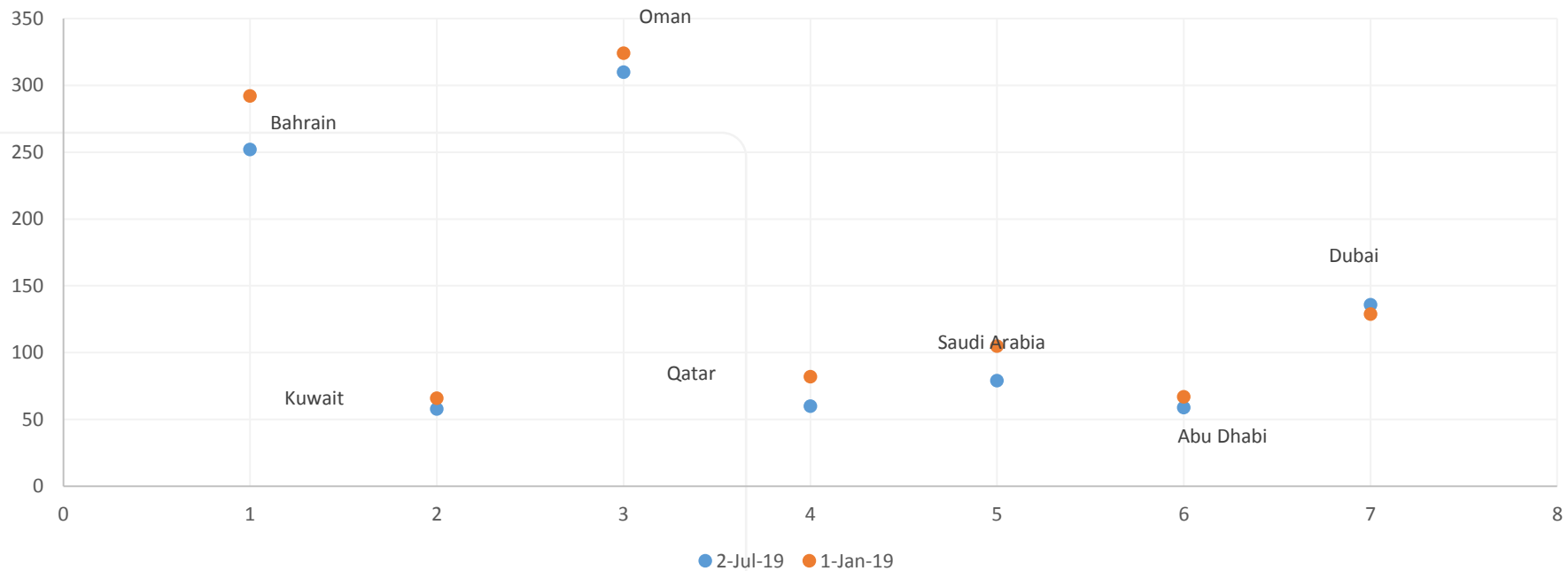
Total return : GCC vs EM USD bonds





- Geopolitical risk in the region appears to have increased somewhat but investors have remained sanguine and do not appear to expect any material militarization of political conflicts. Consequently, the impact on the bond market has been limited so far.
- Credit default protection demand has been manageable and credit protection costs actually declined last month.
- CDS spreads on GCC sovereigns had a narrowing bias last month.

GCC Five yr Sovereign CDS spreads



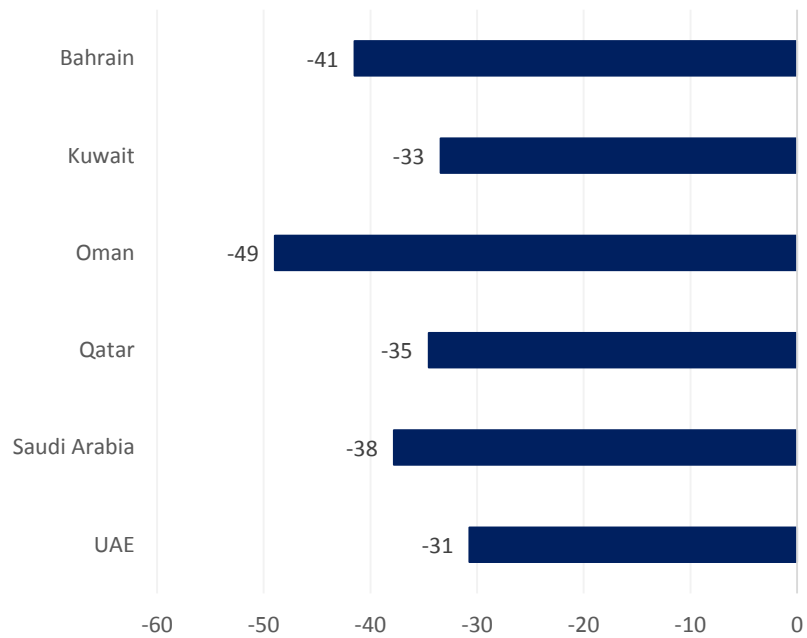
Source: Bloomberg, Emirates NBD Research

SECTOR AND COUNTRY-WISE PERFORMANCE



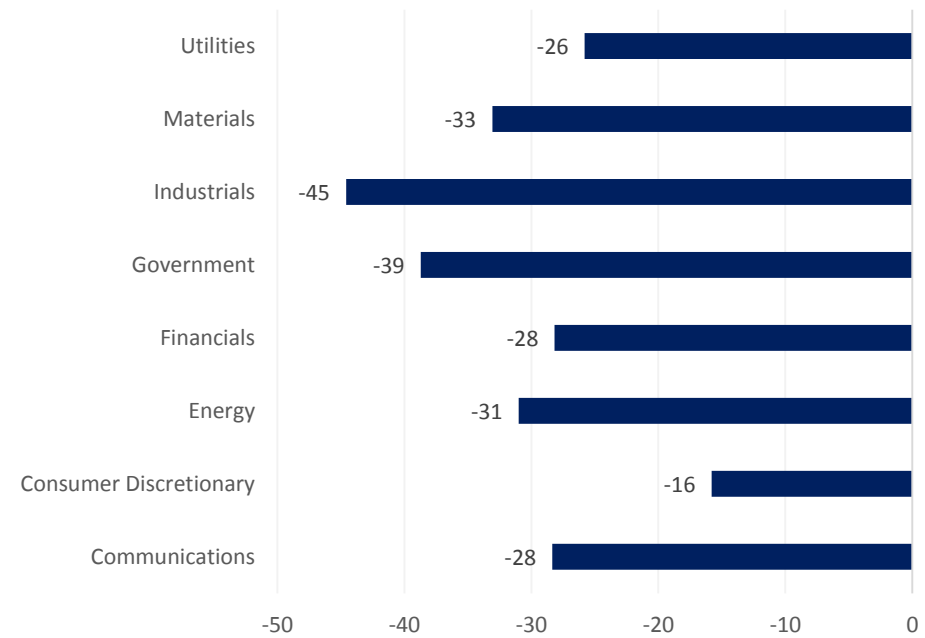
- Credit spread on Omani bonds tightened the most last month owing to their high starting base. In contrast, UAE bonds had the least credit spread tightening given the dominance of highly rated GREs and strong banking sector bonds.
- Sector-wise, consumer discretionary underperformed due to pressure on bonds issued by EA Partners.

Country-wise performance – 1m yield change (bps)



Source: Bloomberg, Emirates NBD Research

Sector-wise performance – 1m yield change (bps)



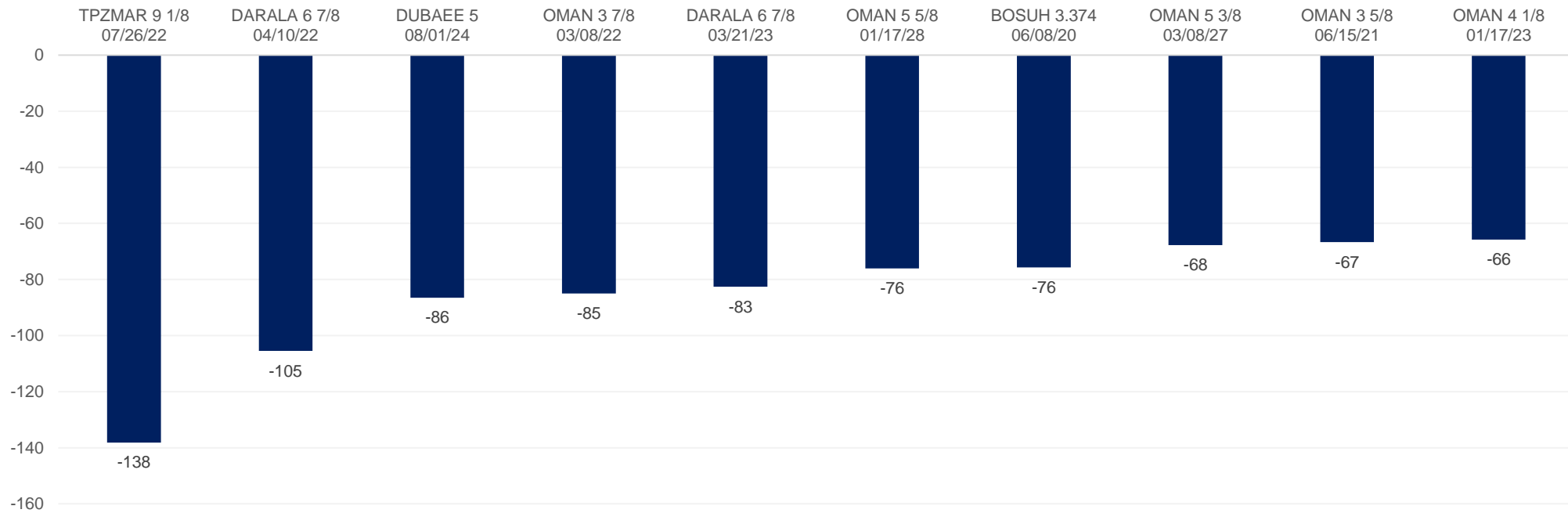
Source: Bloomberg, Emirates NBD Research

TOP 10 PERFORMERS



As is understandable in a falling interest rate environment, high yield bonds outperformed their IG counterparts. B/B3 rated Topaz Marine bonds (TPZMAR 22s) outperformed the GCC universe by far last month, mainly as a result of its acquisition by the BBB+/Baa1 rated DP World. Bargain hunters pushed Oman bonds higher amid generalized bid ensuing from GCC sovereign bonds being included in the EMBIG index.

1m yield change (bps)

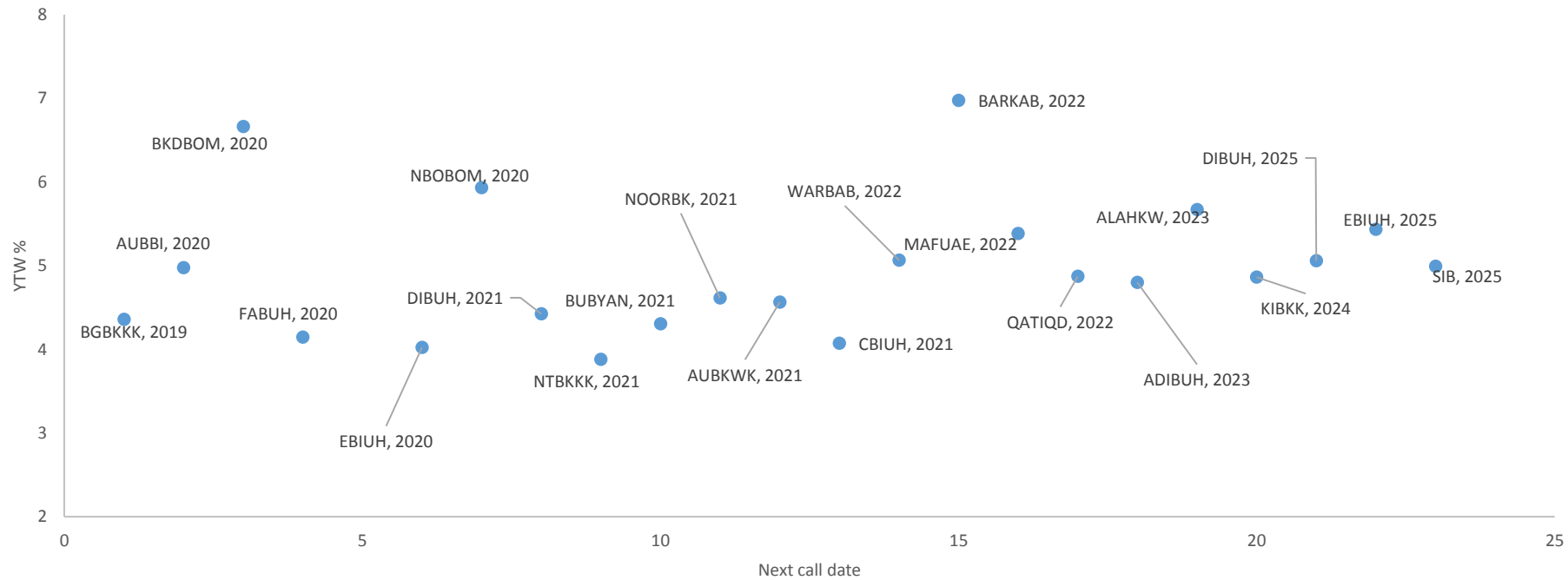


Source: Bloomberg, Emirates NBD Research



- GCC perpetual bonds are generally issued by the banks as Tier 1 capital.
- Given high capital ratios, the risk of perpetual bonds not being called on their first call dates is considered low. Consequently AT1 are generally very well bid as was recently evidenced by competitive pricing of 5% received on SIB’s USD 500m Tier 1 security issued last month against an order book of over USD 4.6 billion.

Perpetual bonds RV snapshot : Next call date vs yield to worst

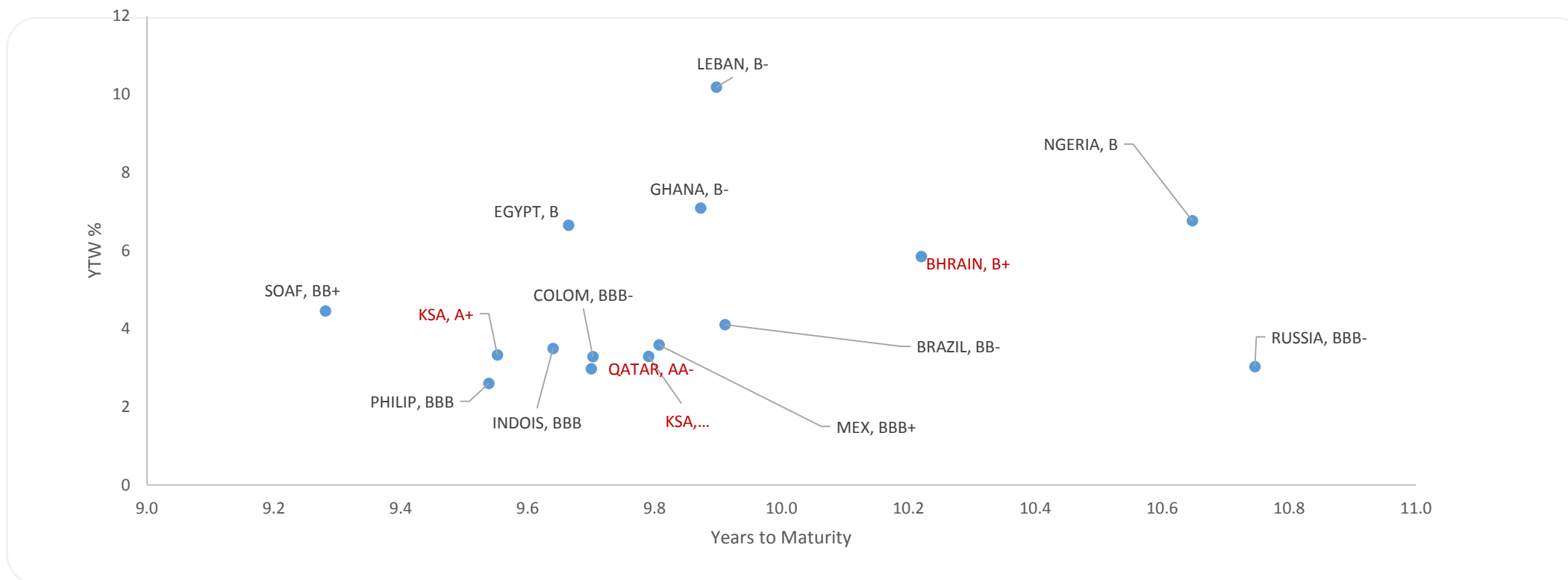


Source: Bloomberg, Emirates NBD Research



- In view of their higher credit ratings, strong government balance sheets and mostly positive current account surpluses, GCC sovereigns should trade tighter than their emerging market counterparts.
- However, current trading levels do not reflect this.

Sovereigns RV snapshot : Maturity vs yield to worst on benchmark sized bonds



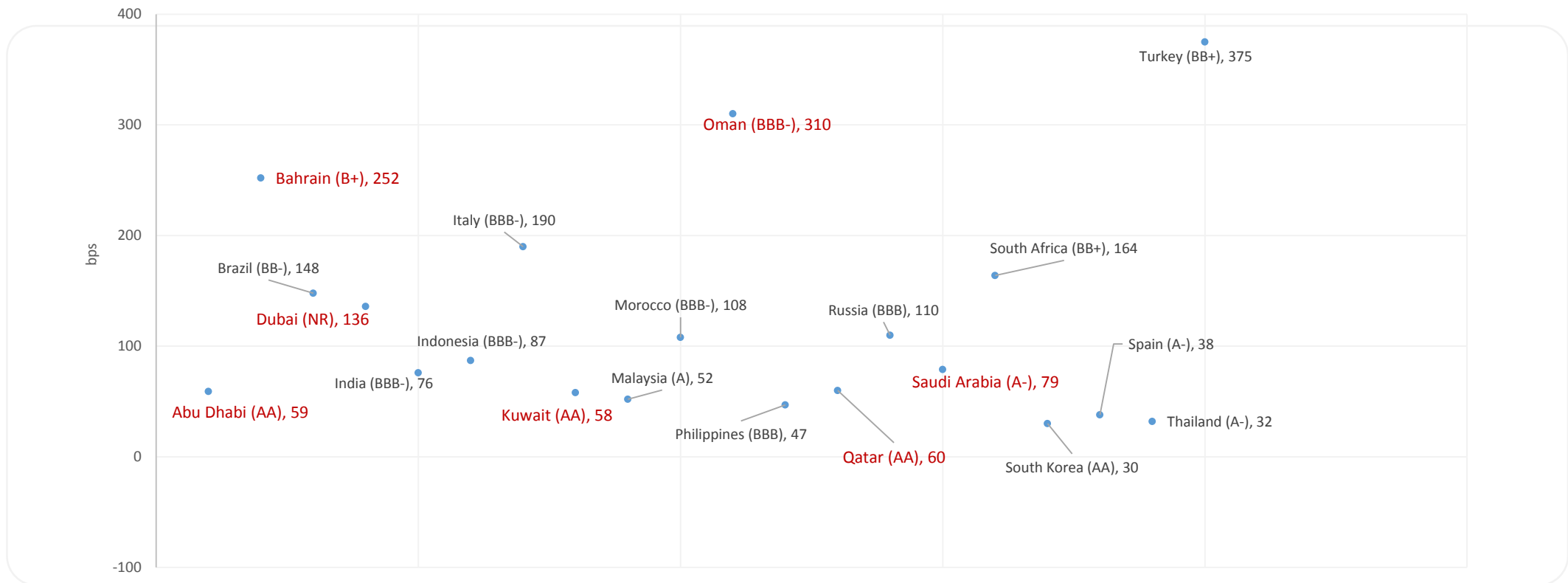
Source: Bloomberg, Emirates NBD Research

GCC SOVEREIGNS 5YR CDS SPREADS - RELATIVE VALUE



Tightening in GCC sovereign CDS spreads in recent weeks has been less than seen in other EM sovereigns, consequently making them appear cheap compared with similar rated counterparts.

RV snapshot based on 5yr CDS spreads of similar rated sovereigns

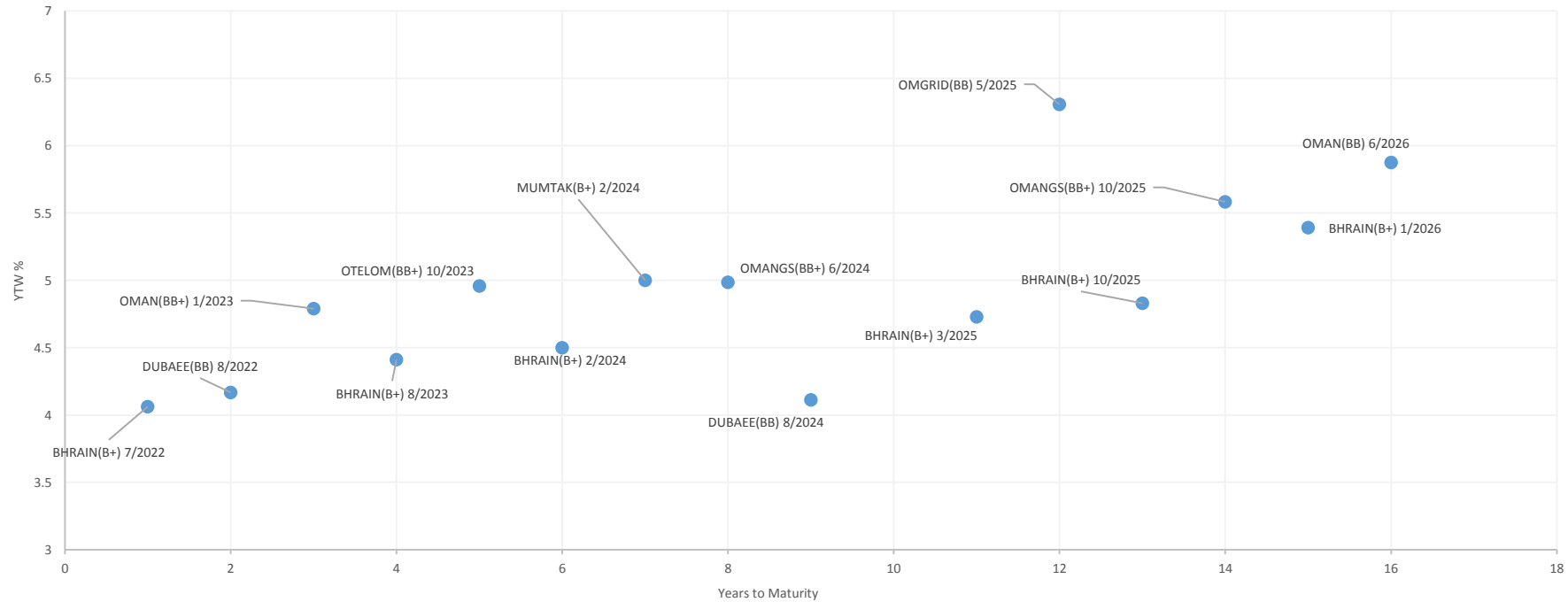


Source: Bloomberg, Emirates NBD Research



GCC HY is dominated by Bahrain and Oman sovereign bonds. Despite their weakening balance sheets, default risk for Oman and Bahrain is considered low in view of widespread expectations of support being available from their GCC neighbours if need be. Current trading spreads do not reflect this strength.

Corporate RV snapshot : Maturity vs yield to worst

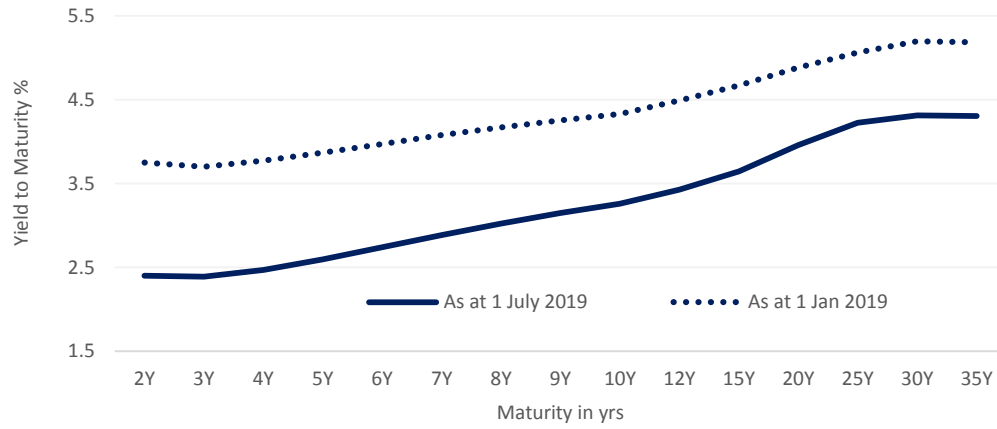


Source: Bloomberg, Emirates NBD Research

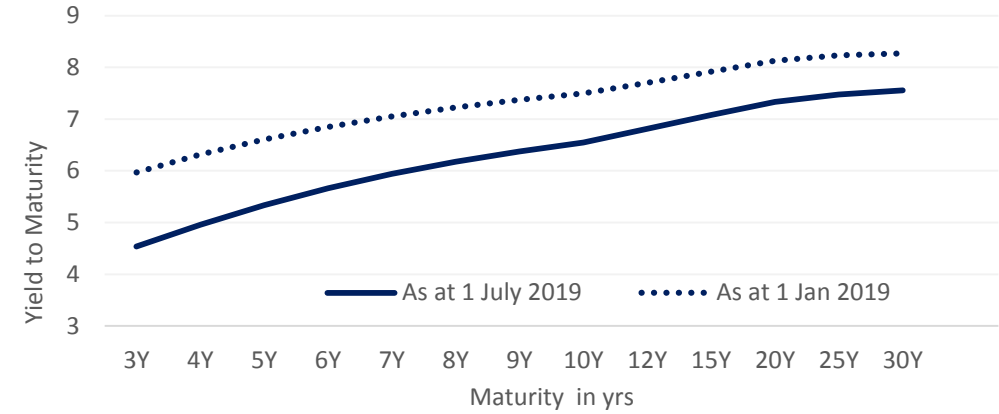
DOWNWARD SHIFT OF GCC SOVEREIGN CURVES



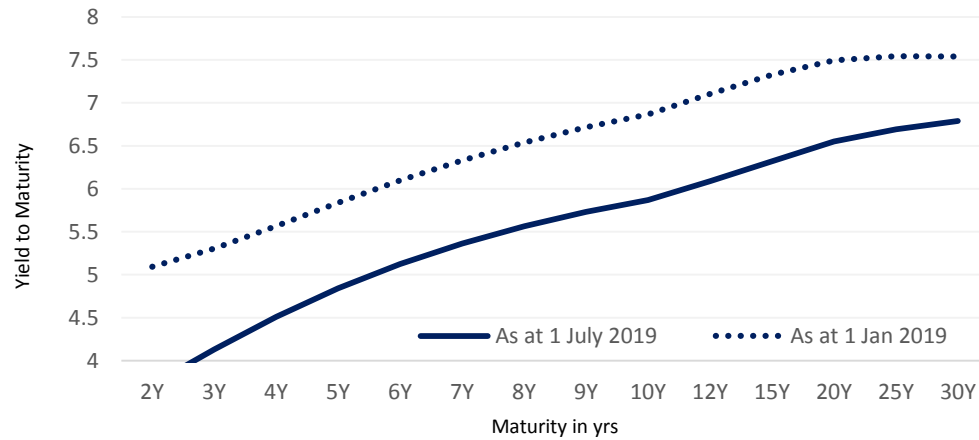
Saudi Curve



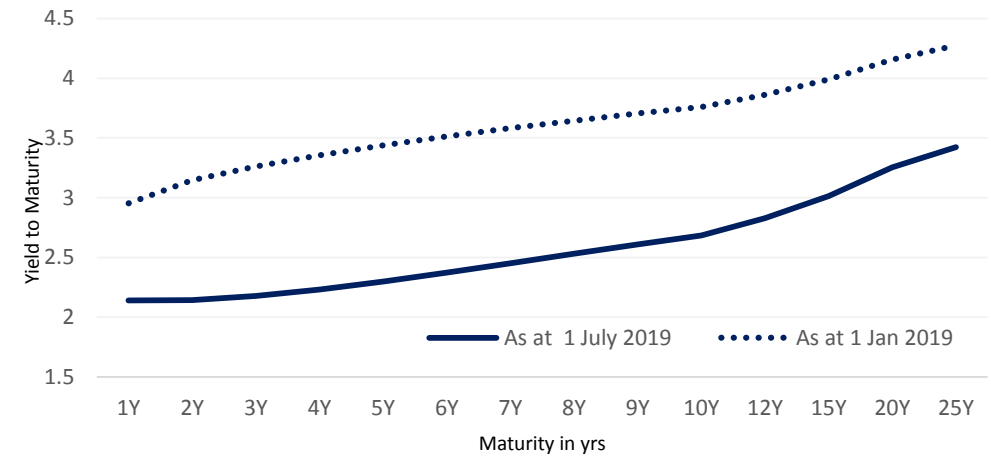
Oman Curve



Bahrain Curve



Abu Dhabi Curve



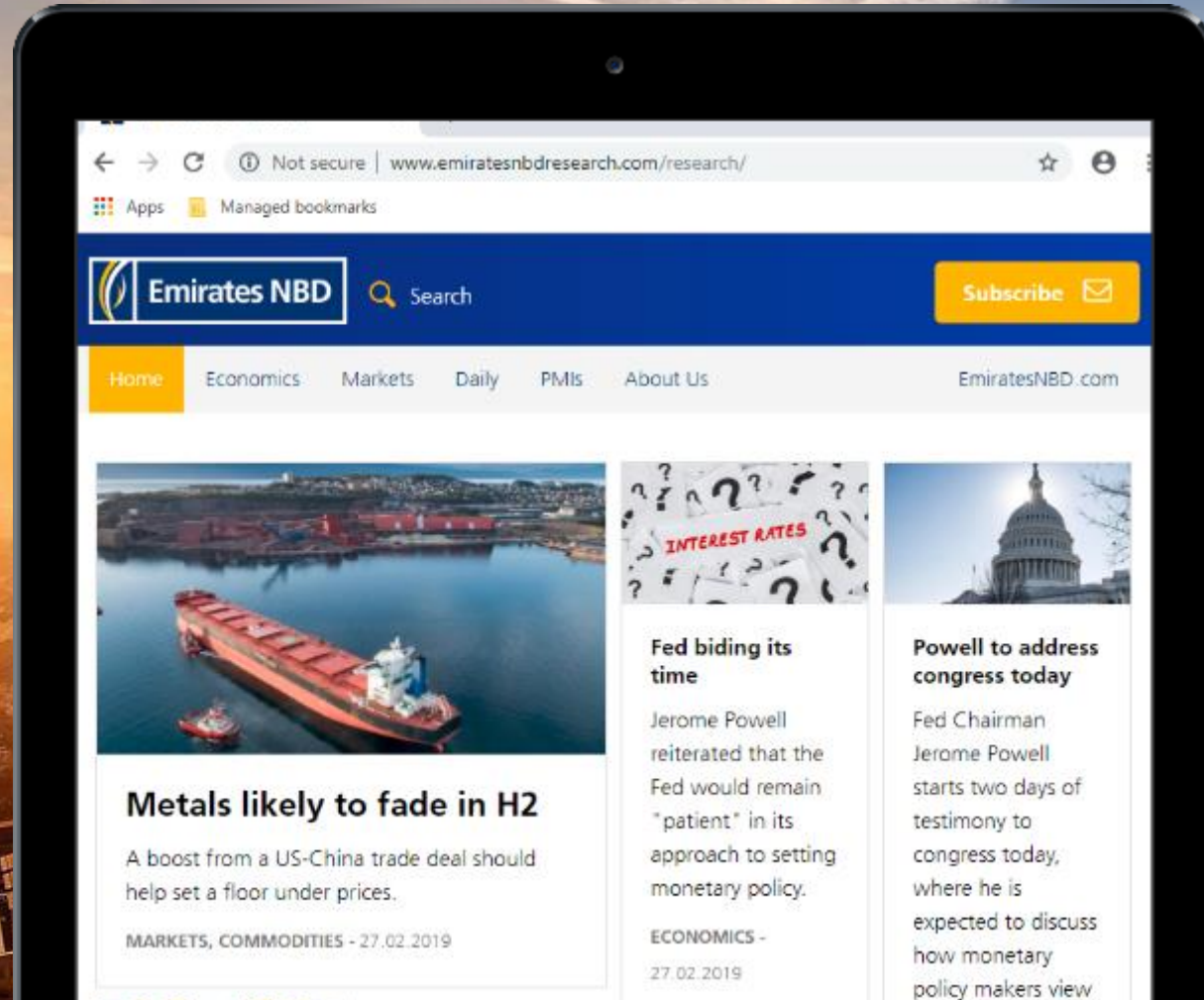
Source: Bloomberg, Emirates NBD Research



Circa USD 16 billion worth of fixed rate USD redemptions are due in 2019.

Ticker	Maturity	Amt Out	Ticker	Maturity	Amt Out
DARALA	5/28/2019	400	QATAR	4/9/2019	1000
KUWAIE	8/4/2019	250	KWIPKK	2/5/2019	233
ADGB	4/8/2019	1500	QTELQD	6/10/2019	600
RAKBNK	6/24/2019	722	MUBAUH	5/6/2019	500
FABUH	8/13/2019	750	HSBC	10/1/2019	400
DAMACR	4/9/2019	271	DOLNRG	6/15/2019	205
MAFUAE	7/5/2019	500	EMAAR	7/18/2019	500
ETISLT	6/18/2019	900	JAFZSK	6/19/2019	237
DICUH	2/20/2019	300	RASGAS	9/30/2019	615
NBOBOM	10/7/2019	300	TAQAUH	9/16/2019	500
EBIUH	11/19/2019	1000	ADCBUH	3/4/2019	750
ADCBUH	9/16/2019	600	FABUH	1/14/2019	500
COMQAT	11/18/2019	600	CBQKQD	4/22/2019	150
FLYDU	11/26/2019	500	COMQAT	4/25/2019	155
COMQAT	6/24/2019	750			

Source: Bloomberg, Emirates NBD Research



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